

**TOWNSHIP OF SOMERSET, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED JUNE 30, 2008**

TOWNSHIP OF SOMERSET, MICHIGAN

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**Osbourne, March, Condon & Co., P.C.**

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## INDEPENDENT AUDITOR'S REPORT

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2008 on our consideration of Township of Somerset, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages iii through vii and 19 through 24 are not a required part of the basic financial statements and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with accounting principles generally accepted in the United States of America because it does not contain: (1) an analysis of the overall financial position and results of operations to assess whether financial position has improved or deteriorated during the year, including reasons for significant changes from the prior year and important economic factors, (2) an analysis of balances and transactions of individual funds, including the reasons for significant changes in fund balances or fund net assets, (3) a description of long-term debt activity, including a discussion of commitments made for capital expenditures and (4) a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes).

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan  
September 15, 2008

The following discussion and analysis of the financial performance for the Township of Somerset, Michigan (the "Township") provides an overview of the Township's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Township's financial statements.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township of Somerset, Michigan's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a long-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, state shared revenues and earned but unused sick and vacation leave).

**Government-wide financial statements (concluded).** The governmental activities of the Township include general government, public safety, highways and roads, capital improvements, and parks and recreation.

The government-wide financial statements can be found on pages 1-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Somerset, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Overview of the Financial Statements (Concluded)**

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Somerset, Michigan maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Roads, Fire, Police, and Capital Improvement Funds, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation and are comprised of the Parks and Recreation Fund and Cemetery Perpetual Care Permanent Fund.

The Township adopts an annual appropriated budget for all of its funds. Budgetary comparison schedules have been provided for the General, Roads, Fire, Parks and Recreation, Police, and Capital Improvement Funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 3-6 of this report.

TABLE 1 – Township of Somerset, Michigan's Net Assets

	GOVERNMENTAL ACTIVITIES	
	2008	2007
Assets		
Current assets	\$ 1,010,087	\$ 737,071
Capital assets	1,124,614	1,194,110
Other non-current assets	282,500	297,375
Total Assets	<u>\$ 2,417,201</u>	<u>\$ 2,228,556</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities	\$ 66,587	\$ 87,808
Long-term liabilities	129,978	154,798
Total Liabilities	<u>\$ 196,565</u>	<u>\$ 242,606</u>
Net Assets:		
Invested in capital – net of related debt	\$ 971,336	\$ 1,022,812
Restricted	18,720	34,422
Unrestricted	1,230,580	929,016
Total Net Assets	<u>\$ 2,220,636</u>	<u>\$ 1,985,950</u>
Total Liabilities and Net Assets	<u>\$ 2,417,201</u>	<u>\$ 2,228,556</u>

**TABLE 2 – Changes in Township of Somerset, Michigan's Net Assets**

	GOVERNMENTAL ACTIVITIES	
	2008	2007
Revenue		
Program Revenue		
Charges for services	\$ 194,208	\$ 147,053
Operating grants and contributions	42,010	8,420
Capital grants and contributions		56,598
General Revenue		
Property taxes	589,785	440,756
State-shared revenues	293,695	288,797
Interest	30,766	31,130
Other	17,661	41,900
Total Revenue	<u>\$ 1,168,125</u>	<u>\$ 922,259</u>
Program Expenses		
General government	\$ 419,117	\$ 499,406
Public safety	344,294	328,658
Highways and roads	32,924	209,802
Parks and recreation	36,657	71,050
Capital outlay	6,681	5,604
Depreciation (unallocated)	93,766	70,273
Total Program Expenses	<u>\$ 933,439</u>	<u>\$ 848,805</u>
Change in Net Assets	<u>\$ 234,686</u>	<u>\$ (170,139)</u>

**Governmental Activities**

In fiscal year 2008 the Township experienced an increase in its State-shared revenues in the amount of \$4,898 due to increases in the statewide economic conditions. During this fiscal year the Township had 6 Millages pass at the November Election. These Millages gave an increase of revenue due to the fact that the Millages rates were brought back to their original rates.

**Financial Analysis of the Township's Funds**

The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purpose as well as to show accountability for certain activities, such as special property tax Millages, grants, contributions or capital projects. The Township's major funds for 2007/2008 consist of the following funds: General, Fire, Road, Police, Parks and Recreation and Capital Improvement.

**The General Fund** is the main operating fund of the Township. Total General Fund revenues for the fiscal year 2007/2008 increased. The increase is attributable to the main fact that the passing of the Millages brought in an additional \$78,000 during the fiscal year. The General Fund also contributes monies to the other funds to help them sustain their budgets.

As of June 30, 2008 the fund balance in the General Fund was \$535,435, representing over 100% of General Fund operating expenditures and transfers.



**Financial Analysis of the Township's Funds (Concluded)**

**The Fire Fund** ended the year with revenues approximately \$43,031 more than the previous year and expenditures approximately \$314,406 less primarily due to the fact that a new fire truck was purchased during the last fiscal year.

**The Police Fund** generally remained the same from prior year.

**The Road Fund** revenues are approximately the same as prior year. However, transfers and expenses are down due to the decrease in contracting road projects.

**The Parks and Recreation Fund** maintains their budget between their tax Millage and funds received from a cell tower lease. They receive no assistance from the General Fund.

**Capital Improvement Fund** was used to purchase a Record Retention Program. The Township, during the 2008/09 fiscal year will be in the process of getting the paper documents on computer with backups being stored off site, as well as the order the departments will be processed. Electronic updates are also maintained through the Capital Improvement Fund.

**General Fund Highlights**

The General Fund accounts for all property tax assessing, elections, cemetery activities, planning, zoning, and other administrative functions of the Township government. The budget is essentially a "maintenance" tool. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts. However, for fiscal year ended June 30, 2008 the Township was under budget by approximately 15%.

**Capital Asset and Debt Administration**

At the end of fiscal year 2008, the Township had approximately \$1,124,614 (net of deprecation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. There is no related infrastructure reported in the year-end net capital investment. The Township elects to follow the method of prospective reporting of infrastructure assets provided in the new reporting pronouncement.

There was a reduction on the long-term debt pertaining to the fire truck purchased during the 2006/07 budget year.

The Township properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

**Economic Factors and Next Year's Budgets and Rates**

The Township's budget for 2008/2009 is based on the same property tax rates as was for year ended June 30, 2008. This can be accomplished because of the continuous growth in the tax base. However, because of the impact of the State-shared revenues cuts, the Township will continue to watch its budget very closely.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the Township Clerk's office located at 12715 East Chicago Road, Somerset Center, Michigan 49282.

## TOWNSHIP OF SOM

## STATEMENT OF NET ASSETS

JUNE 30, 2008

	GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 581,828
Investments	318,648
Ambulance billing receivables, net of reserve for uncollectible insurance reimbursements	25,673
Accounts receivable other	9,898
Special assessment receivable, current portion	4,750
Due from other governmental units	<u>69,290</u>
Total Current Assets	<u>\$ 1,010,087</u>
Noncurrent Assets:	
Special assessment receivable, net of current portion	\$ 4,750
Grave sites available for sale	277,750
Capital assets	1,953,491
Less: accumulated depreciation	<u>(828,877)</u>
Total Noncurrent Assets	<u>\$ 1,407,114</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,417,201</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities:	
Accounts payable	\$ 9,005
Compensated absences	7,582
Long term debt, current portion	<u>50,000</u>
Total Current Liabilities	<u>\$ 66,587</u>
Long-term debt, net of current portion	<u>\$ 129,978</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 196,565</u></u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 971,336
Restricted:	
Metro Act funds	17,675
Police training	459
Cemetery perpetual care:	
Nonexpendable	500
Expendable	86
Unrestricted	<u>1,230,580</u>
Total Net Assets	<u>\$ 2,220,636</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,417,201</u></u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

		PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	ACTIVITIES
	EXPENSES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES				
General government	\$ 419,117	\$ 118,444	\$ 3,627	\$ (297,046)
Public safety	344,294	59,558	32,922	(251,814)
Highways and roads	32,924		5,279	(27,645)
Parks and recreation	36,657	16,206	182	(20,269)
Capital outlay	6,681			(6,681)
Depreciation (unallocated)	93,766			(93,766)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 933,439</u>	<u>\$ 194,208</u>	<u>\$ 42,010</u>	<u>\$ (697,221)</u>
		GENERAL REVENUES		
		Property taxes		\$ 589,785
		State-shared revenues		293,695
		Interest		30,766
		Other		<u>17,661</u>
		TOTAL GENERAL REVENUES		<u>\$ 931,907</u>
		CHANGE IN NET ASSETS		\$ 234,686
		NET ASSETS - BEGINNING		<u>1,985,950</u>
		NET ASSETS - ENDING		<u><u>\$ 2,220,636</u></u>

See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2008

	Major Funds		
	GENERAL FUND	ROADS	FIRE
<b>ASSETS</b>			
Cash and cash equivalents	\$ 324,680	\$ 95,736	\$ 19,579
Investments	125,486	55,442	11,613
Ambulance billing receivables, net of reserve for uncollectible insurance reimbursements			25,673
Accounts receivable - other	5,498		
Due from other funds	14,298		
Due from other government units	65,473	7,900	
<b>TOTAL ASSETS</b>	<b>\$ 535,435</b>	<b>\$ 159,078</b>	<b>\$ 56,865</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 7,005	\$	\$
Other accrued liabilities			
Due to other funds		14,298	
<b>Total Liabilities</b>	<b>\$ 7,005</b>	<b>\$ 14,298</b>	<b>\$</b>
Fund Balances:			
Reserved for:			
Metro Act expenditures	\$	\$ 17,675	\$
Police training			
Cemetery perpetual care			
Unreserved:			
Undesignated	528,430	127,105	56,865
<b>Total Fund Balances</b>	<b>\$ 528,430</b>	<b>\$ 144,780</b>	<b>\$ 56,865</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 535,435</b>	<b>\$ 159,078</b>	<b>\$ 56,865</b>

See accompanying notes to the basic financial statements.

Major Funds			Non-major Fund	TOTAL GOVERNMENTAL FUNDS
PARKS AND RECREATION	CAPITAL IMPROVEMENT	POLICE	CEMETERY	
\$ 48,988	\$ 66,773	\$ 26,072	\$	\$ 581,828
49,986	55,275	20,260	586	318,648
				25,673
				5,498
				14,298
		317		73,690
<u>\$ 98,974</u>	<u>\$ 122,048</u>	<u>\$ 46,649</u>	<u>\$ 586</u>	<u>\$ 1,019,635</u>
\$	\$	\$ 2,000	\$	\$ 9,005
		3,453		3,453
				14,298
<u>\$</u>	<u>\$</u>	<u>\$ 5,453</u>	<u>\$</u>	<u>\$ 26,756</u>
\$	\$	\$	\$	\$ 17,675
		459		459
			586	586
<u>98,974</u>	<u>122,048</u>	<u>40,737</u>		<u>974,159</u>
<u>\$ 98,974</u>	<u>\$ 122,048</u>	<u>\$ 41,196</u>	<u>\$ 586</u>	<u>\$ 992,879</u>
<u>\$ 98,974</u>	<u>\$ 122,048</u>	<u>\$ 46,649</u>	<u>\$ 586</u>	<u>\$ 1,019,635</u>

TOWNSHIP OF SOMERSET, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2008

GOVERNMENTAL FUND BALANCES \$ 992,879

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and  
are not reported in the funds

The cost of the capital assets is	\$ 1,953,491	
Accumulated depreciation is	<u>(828,877)</u>	1,124,614

Receivables are expected to be collected in future years and are not available to pay for current year expenditures	9,500
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Cemetery grave sites available for sale are not current financial resources	277,750
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Long-term liabilities are not due and payable in the current period and are not reported  
in the funds

Compensated absences	(4,129)
Long-term debt	<u>(179,978)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,220,636

See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2008

	Major Funds		
	GENERAL FUND	ROADS	FIRE
REVENUES			
Taxes	\$ 197,403	\$ 53,788	\$ 147,165
State revenues	293,695	5,279	2,500
Federal revenues			9,500
County ambulance			17,402
Charges for services	80,392		54,862
Licenses and permits	19,867		
Fines, fees, and forfeits	14,975		
Interest	14,784	5,554	699
Rental revenue	3,210		
Other	31,316		860
TOTAL REVENUES	<u>\$ 655,642</u>	<u>\$ 64,621</u>	<u>\$ 232,988</u>
EXPENDITURES			
General government	\$ 418,583	\$	\$
Public safety			210,775
Highways and roads		32,924	
Parks and recreation			
Capital outlay			13,639
TOTAL EXPENDITURES	<u>\$ 418,583</u>	<u>\$ 32,924</u>	<u>\$ 224,414</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 237,059</u>	<u>\$ 31,697</u>	<u>\$ 8,574</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$	\$ 20,000	\$ 71,724
Operating transfers (out)	(111,505)		
Capital lease proceeds			
Payments on long-term debt			(38,418)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (111,505)</u>	<u>\$ 20,000</u>	<u>\$ 33,306</u>
NET CHANGE IN FUND BALANCE	\$ 125,554	\$ 51,697	\$ 41,880
FUND BALANCES - BEGINNING	<u>402,876</u>	<u>93,083</u>	<u>14,985</u>
FUND BALANCES - ENDING	<u>\$ 528,430</u>	<u>\$ 144,780</u>	<u>\$ 56,865</u>

See accompanying notes to the basic financial statements.

Major Funds			Non-major Fund	TOTAL GOVERNMENTAL FUNDS
PARKS AND RECREATION	CAPITAL IMPROVEMENT	POLICE	CEMETERY	
\$ 49,038	\$ 49,038	\$ 98,103 2,310	\$	\$ 594,535
				303,784
				9,500
		220		17,402
				135,474
		4,476		19,867
3,214	5,354	1,137	24	19,451
16,206				30,766
182		447		19,416
				32,805
<u>\$ 68,640</u>	<u>\$ 54,392</u>	<u>\$ 106,693</u>	<u>\$ 24</u>	<u>\$ 1,183,000</u>
\$	\$	\$	\$	\$ 418,583
		118,110		328,885
23,057				32,924
	22,797			23,057
				36,436
<u>\$ 23,057</u>	<u>\$ 22,797</u>	<u>\$ 118,110</u>	<u>\$</u>	<u>\$ 839,885</u>
<u>\$ 45,583</u>	<u>\$ 31,595</u>	<u>\$ (11,417)</u>	<u>\$ 24</u>	<u>\$ 343,115</u>
\$	\$	\$	\$	\$ 111,505
		19,781		(111,505)
	17,165			17,165
(14,400)	(5,340)			(58,158)
<u>\$ (14,400)</u>	<u>\$ 11,825</u>	<u>\$ 19,781</u>	<u>\$</u>	<u>\$ (40,993)</u>
\$ 31,183	\$ 43,420	\$ 8,364	\$ 24	\$ 302,122
67,791	78,628	32,832	562	690,757
<u>\$ 98,974</u>	<u>\$ 122,048</u>	<u>\$ 41,196</u>	<u>\$ 586</u>	<u>\$ 992,879</u>



TOWNSHIP OF SOMERSET, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 302,122

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities these costs are allocated over their estimated useful lives as depreciation

Depreciation expense	\$ (93,766)	
Capital outlay	<u>24,270</u>	(69,496)

Repayment of bank notes and other long-term obligations are expenditures in the governmental funds, but not in the statement of activities, where it reduces long-term debt	49,585
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Loan and capital lease proceeds are reported as other financial sources in the governmental funds, but as increases to liabilities in the statement of net assets	(17,165)
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Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(1,885)
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Receipts for the sale of cemetery grave sites are revenue in the governmental funds, but the receipts reduce cemetery graves sites available for sale in the governmental activities	(10,125)
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Receipts collected on special road assessments are revenues in the governmental funds, but the receipts reduce long-term receivables in the governmental activities	(4,750)
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Services performed under a contract with long-term payment arrangements are expensed in the statement of activities, but not in the governmental funds	(13,600)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 234,686</u>
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See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Township of Somerset, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

##### FINANCIAL REPORTING ENTITY

The Township of Somerset (the "Township") was organized in 1837. The Township operates under a part-time elected board and provides the following services to its residents: Public Safety – police, fire, and ambulance, Parks and Recreation, Public Improvements, and General Administrative Services.

##### ECONOMIC DEPENDENCY

The Township is economically dependent on the State of Michigan for State-shared revenues. Absent allocations from the State, the Township's operating results would report expenditures exceeding revenues in its General Fund. Furthermore, the General Fund would be in a deficit position within a two to three year period continuing the services the Township currently provides.

##### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of inter-fund activity has been removed from these statements. All the Township's government-wide activities are considered governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

##### MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND  
FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include penal fines, State-shared revenues, and other local municipal revenues. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* is a Special Revenue Fund used to account for road maintenance costs. The costs are funded through the collection of property taxes and General Fund appropriations.

The *Fire Fund* is a Special Revenue Fund used to account for fire protection and ambulance services. The costs are funded through the collection of property taxes, General and Capital Improvement Fund appropriations, and service fees.

The *Parks and Recreation Fund* is a Special Revenue Fund used to account for the maintenance and improvement of the Township parks. The costs are funded through the collection of property taxes and rental fees.

The *Capital Improvement Fund* accounts for the acquisition or construction of major capital improvements and equipment. The costs are funded through the collection of property taxes and General Fund appropriations.

The *Police Fund* is a Special Revenue Fund used to account for police protection services. The costs are funded through the collection of property taxes, General and Capital Improvement Fund appropriations, and service fees.

Additionally, the Township reports the following fund types:

*Permanent Funds* account for assets held by the Township pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Township maintains a Cemetery Memorial Permanent Fund that is reported as a non-major governmental fund.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND  
FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

*Fiduciary Funds* are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support Township operations. The Township's only Fiduciary Fund type is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township presently collects and distributes property taxes on behalf of and to other local units of government through its agency fund. At June 30, 2008, all monies had been disbursed.

BANK DEPOSITS

All accounts and deposits with original maturity of three months or less from date of acquisition are considered to be cash.

RECEIVABLES AND PAYABLES

Outstanding balances and activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year, as well as all computers, TV's, radios, and VCR's. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the life of an asset are not capitalized but rather expensed in the period incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Buildings	40
Improvements	15-40
Equipment	5-20
Furniture and library books	3-5
Vehicles	3-20

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CEMETERY GRAVE SITES

The Township has available for sale 2,222 grave sites. These grave sites are priced at the resident rate of \$125 per grave site. At June 30, 2008 the grave sites are valued at \$277,750 and reported as non-current assets in the statement of net assets.

COMPENSATED ABSENCES

Full-time employees are eligible to earn vacation and sick/personal leave time. Vacation leave time is earned based on the number of service years employed. Sick/leave is earned annually and is limited to six days per year. All leave time earned is available to the employees on their anniversary hire date. Leave time is not allowed to accumulate and must be used prior to the employee's anniversary date. At June 30, 2008 the balance of unused leave exceeded paid leave time in the amount of \$7,582.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted net assets reported in the government-wide financial statements are reported as such from restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AMBULANCE SERVICE REVENUE AND RECEIVABLES

During the year the Township discontinued its agreement with a county ambulance service company to provide services in the Township jurisdiction and began providing those services on its own; the activity is accounted for in the Township's Fire Fund.

Ambulance service revenue is reported at the net realizable amount of gross service revenue less the portion insurance companies will not reimburse.

Furthermore, the Township has established a reserve for billing charges receivables outstanding at June 30, 2008, that it estimates will not be reimbursed by insurance companies in the amount of \$5,000. The reserve was established based on the rate of current year adjustments for uncollectible insurance reimbursements to total ambulance service revenue.

Currently the Township does not have a policy pertaining to bad debt collections for uncollectible ambulance billing charges due from individuals that were provided services.

PROPERTY TAX

The Township of Somerset, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the Township by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The Township's budgetary procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Fund.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING (CONCLUDED)

5. Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the Township Board. Budgets for the General Fund are adopted on a functional basis.
6. Any excess amount budgeted for expenditures is covered by a carryover in fund balance from previous years.
7. The budgeted revenues and expenditures for major funds are presented in a budgetary comparison schedule as required supplemental information.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2008.

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, the deposits were reported in the basic financial statements in the following categories:

	GOVERNMENTAL ACTIVITIES
Cash	\$ 563,108
Cash – restricted	18,720
Investments	318,648
	<hr/>
	\$ 900,476

Restricted cash comprises reserved fund balances and restricted net assets as disclosed in Note 8.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The breakdown between cash and investments for the Township is as follows:

	TOTAL
Cash (checking accounts, savings accounts and certificates of deposits)	\$ 581,653
Money market fund	318,648
Petty cash	175
	<hr/>
Total	\$ 900,476
	<hr/>

Deposits

The Township's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) as \$ 941,532. Of that amount, \$540,835 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Township. As of June 30, 2008, the Township held investments in a money market fund, totaling \$318,648, which was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form. The investment policy adopted by the Township Council is in accordance with Public Act 196 of 1997.

NOTE 3: SPECIAL ASSESSMENT RECEIVABLE

In year ended June 30, 2001 the Township provided a road paving project at the request of local property owners residing in the Township. In exchange for the new paved road the property owners agreed to a special property tax assessment to pay for the project. The cost of the project totaled \$52,000 to be collected over ten years. Property owners are assessed \$125 per parcel plus interest at 8% annually. The assessment continues through the year ending June 30, 2010. The special assessment receivable is reported in the statement of net assets.

JUNE 30	PRINCIPAL	INTEREST	TOTAL
2009	\$ 4,750	\$ 510	\$ 5,260
2010	<u>4,750</u>	<u>54</u>	<u>4,804</u>
	<u>\$ 9,500</u>	<u>\$ 564</u>	<u>\$ 10,064</u>



TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 4: OPERATING LEASE

On February 28, 2006, the Township entered into a lease agreement to lease real property located in the Township's park to New Cingular Wireless PCS LLC for the installation of a cellular phone tower. The terms of the lease require monthly lease payments payable to the Township of Somerset in the amount of \$1,200 (increasing by 3% annually) commencing on April 1, 2006 through March 1, 2011. The lease agreement provides the company the option of extending the lease up to an additional twenty years. The option can only be exercised through written notification to the Township prior to the termination of the first five year term.

During the fiscal year, the Township recognized \$14,400 in lease revenue in its General Fund.

The following is a schedule of future minimum lease collections:

2009	\$ 15,353
2010	15,814
2011	<u>16,288</u>
	<u>\$ 47,455</u>

NOTE 5: CAPITAL ASSETS

	BALANCE JULY 1, 2007	ADDITIONS	DISPOSALS	BALANCE JUNE 30, 2008
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 226,000	\$	\$	\$ 226,000
Capital assets being depreciated:				
Buildings and improvements	592,501			592,501
Machinery and equipment	222,680	24,270		246,950
Vehicles	767,850			767,850
Office equipment & furnishings	120,190			120,190
Subtotal	<u>\$1,929,221</u>	<u>\$ 24,270</u>	<u>\$</u>	<u>\$ 1,953,491</u>
Accumulated depreciation:				
Buildings and improvements	\$ 288,665	\$ 19,773	\$	\$ 308,438
Machinery and equipment	103,637	15,659		119,296
Vehicles	287,002	48,457		335,459
Office equipment & furnishings	55,807	9,877		65,684
Subtotal	<u>\$ 735,111</u>	<u>\$ 93,766</u>	<u>\$</u>	<u>\$ 828,877</u>
Net Capital Assets	<u>\$1,194,110</u>	<u>\$ (69,496)</u>	<u>\$</u>	<u>\$ 1,124,614</u>

Unallocated depreciation expense charged to governmental activities totaled \$93,766.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

NOTE 6: LONG-TERM DEBT

Long-term debt at June 30, 2008 is comprised of the following:

Contract with Frontier Rustic Sculpting in the amount of \$61,400, unsecured, payable in monthly installments of \$1,200 that includes interest at a rate of 5%, through May, 2010.	\$ 26,700
Capital lease agreement with Advantage Financial Services in the amount \$17,165, secured by DocStar equipment and software, payable in annual installments of \$5,214 through June, 2011.	12,874
Loan with County National Bank in the amount of \$200,000, secured by fire truck, payable in monthly installments of \$3,201 that includes interest at a rate of 4.72% through August, 2012.	<u>140,404</u>
	\$ 179,978
Less: current portion of long-term debt	<u>50,000</u>
<b>TOTAL LONG-TERM DEBT</b>	<b><u>\$ 129,978</u></b>

The following is a summary of changes in long-term debt:

	BALANCE JULY 1, 2007	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2008
<u>GOVERNMENTAL ACTIVITIES</u>				
Frontier Rustic Sculpting	\$ 27,500	\$ 13,600	\$ 14,400	\$ 26,700
Advantage Financial Services		17,165	4,291	12,874
County National Bank	<u>171,298</u>		<u>30,894</u>	<u>140,404</u>
Total Governmental Activities	<u>\$ 198,798</u>	<u>\$ 30,765</u>	<u>\$ 49,585</u>	<u>\$ 179,978</u>

The following is a schedule of principal and interest maturities:

	<u>GOVERNMENTAL ACTIVITIES</u>		
	PRINCIPAL	INTEREST	TOTAL
2009	\$ 50,000	\$ 8,026	\$ 58,026
2010	52,000	5,426	57,426
2011	40,000	3,632	43,632
2012	37,000	1,418	38,418
2013	<u>978</u>	<u>30</u>	<u>1,008</u>
	<u>\$ 179,978</u>	<u>\$ 18,532</u>	<u>\$ 198,510</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 6: LONG-TERM DEBT (CONCLUDED)

Cash paid for interest and expensed during the year totaled \$8,447 and is reported as a direct expense in the statement of activities.

The above note with Frontier Rustic Sculpting was negotiated with an independent contractor in consideration for restoration services performed on the McCourtie Park bridges. The terms of the note require monthly installments with no stated interest. The present value of the remaining cash flows totaling \$28,800 at June 30, 2008, was computed at \$26,700, by discounting the future cash flows at the Township's long-term borrowing rate of 5%.

NOTE 7: INTERFUND LOAN

During the 2001 year the Township's General Fund loaned the Road Fund \$30,000 towards a paving project, as disclosed in Note 4. The Road Fund is required to repay the principal amount loaned plus 8% interest back to the General Fund from amounts collected on the special assessment each year until fully paid by 2010. At June 30, 2008 the outstanding obligation to the General Fund was \$14,298, comprised of a principal balance of \$10,832 and accrued interest of \$3,466.

NOTE 8: EQUITIES

Reserved fund balances and restricted net assets at June 30, 2008 were as follows:

<u>Fund Balance</u>	RESERVED
Police Fund	
Police training – Act 302	\$ 604
Road Fund	
Metro Act funding	17,675
Cemetery Permanent Fund	
Cemetery perpetual care	
Nonexpendable	500
Expendable	<u>86</u>
	<u>\$ 18,865</u>

Reserved

- Act 302 monies received from the State of Michigan are restricted for police training.
- Metro Act monies received from the State of Michigan are restricted for right-of-way improvements.
- Cemetery perpetual care monies are restricted into perpetuity whereby only interest earnings may be expended towards cemetery maintenance costs.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

NOTE 9: EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Fire Fund and Road Fund budgets of the Township were adopted at the fund level. During the year ended June 30, 2008, the Township incurred expenditures in the funds, which were in excess of the amended budget as follows:

	FINAL BUDGET	ACTUAL	UNFAVORABLE VARIANCE
Fire Fund	\$ 193,119	\$ 224,414	\$ 31,295
Police Fund	\$ 115,633	\$ 118,110	\$ 2,477

NOTE 10: OPERATING TRANSFERS

Interfund transfers for the current year were as follows:

Governmental Activities

Transfers out from:	Transfers in to:	
General Fund	Fire Fund	\$ 71,724
General Fund	Road Fund	20,000
General Fund	Police Fund	<u>19,781</u>
		<u>\$ 111,505</u>

All transfers between Township funds are approved appropriations in the 2007-2008 budgets and were made from the General Fund to subsidize other fund's operations.

NOTE 11: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (due from) and interfund payables (due to), reported in governmental activities and represent a loan made by the General Fund to the Road Fund.

DUE FROM - COLLECTABLE BY:	DUE TO - PAYABLE BY:	
General Fund	Road Fund	<u>\$ 14,298</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2008

NOTE 12: RISK MANAGEMENT

The Township of Somerset, Michigan is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The Township of Somerset, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific Township of Somerset, Michigan facilities or events.

The Township continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 13: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, Township management does not believe such disallowances, if any, will be material to the financial position of the Township.

## REQUIRED SUPPLEMENTAL INFORMATION

## TOWNSHIP OF SOMERSET, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Taxes	\$ 197,340	\$ 197,340	\$ 197,403	\$ 63
State revenues	293,500	293,500	293,695	195
Charges for services	66,445	66,445	80,392	13,947
Licenses and permits	22,945	22,945	19,867	(3,078)
Fines, fees, and forfeits	14,000	14,000	14,975	975
Interest	12,000	12,000	14,784	2,784
Rental revenue	3,250	3,250	3,210	(40)
Other	13,234	13,234	31,316	18,082
TOTAL REVENUES	<u>\$ 622,714</u>	<u>\$ 622,714</u>	<u>\$ 655,642</u>	<u>\$ 32,928</u>
EXPENDITURES				
Township board	\$ 13,450	\$ 13,450	\$ 13,151	\$ 299
Supervisor	17,083	17,083	15,966	1,117
Elections	17,950	17,950	9,970	7,980
Assessor	82,550	82,550	69,982	12,568
Legal and accounting	19,650	19,650	15,347	4,303
Clerk	47,500	47,500	42,262	5,238
Board of review	1,810	1,810	1,274	536
Treasurer	58,848	58,848	46,204	12,644
Data Proc/Comp			400	(400)
MB offices	26,805	26,805	28,430	(1,625)
SCCR	8,150	8,150	6,465	1,685
JCB	15,875	15,875	6,042	9,833
Cemeteries	28,100	28,100	24,677	3,423
Social services	500	500	500	-
Building department	35,425	35,425	30,693	4,732
Drain expense	1,000	1,000	842	158
Street lights	6,000	6,000	5,702	298
Sewer ad-hoc committee	20,000	20,000	5,140	14,860
Underground storage tanks	20,775	20,775	35,831	(15,056)
Postage fees	10,000	10,000	7,894	2,106
Fireworks activities	6,950	6,950	6,391	559
Library	35,281	35,281	32,246	3,035
Planning and zoning	22,758	22,758	13,174	9,584
TOTAL EXPENDITURES	<u>\$ 496,460</u>	<u>\$ 496,460</u>	<u>\$ 418,583</u>	<u>\$ 77,877</u>
REVENUES OVER EXPENDITURES	<u>\$ 126,254</u>	<u>\$ 126,254</u>	<u>\$ 237,059</u>	<u>\$ 110,805</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	<u>\$ (126,254)</u>	<u>\$ (126,254)</u>	<u>\$ (111,505)</u>	<u>\$ 14,749</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 125,554	\$ 125,554
FUND BALANCE - BEGINNING	<u>402,876</u>	<u>402,876</u>	<u>402,876</u>	<u>402,876</u>
FUND BALANCE - ENDING	<u>\$ 402,876</u>	<u>\$ 402,876</u>	<u>\$ 528,430</u>	<u>\$ 528,430</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - ROADS

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Taxes	\$ 53,510	\$ 53,510	\$ 53,788	\$ 278
State revenues			5,279	5,279
Interest	<u>750</u>	<u>750</u>	<u>5,554</u>	<u>4,804</u>
TOTAL REVENUES	<u>\$ 54,260</u>	<u>\$ 54,260</u>	<u>\$ 64,621</u>	<u>\$ 10,361</u>
EXPENDITURES				
Road improvements	\$ 54,034	\$ 54,034	\$ 270	\$ 53,764
Road maintenance	45,000	45,000	26,230	18,770
Insurance	5,700	5,700	5,558	142
Interest expense	<u></u>	<u></u>	<u>866</u>	<u>(866)</u>
TOTAL EXPENDITURES	<u>\$ 104,734</u>	<u>\$ 104,734</u>	<u>\$ 32,924</u>	<u>\$ 71,810</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (50,474)</u>	<u>\$ (50,474)</u>	<u>\$ 31,697</u>	<u>\$ 82,171</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 54,749	\$ 54,749	\$ 20,000	\$ (34,749)
Operating transfers (out)	<u>(4,275)</u>	<u>(4,275)</u>	<u></u>	<u>4,275</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 50,474</u>	<u>\$ 50,474</u>	<u>\$ 20,000</u>	<u>\$ (30,474)</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 51,697	\$ 51,697
FUND BALANCE - BEGINNING	<u>93,083</u>	<u>93,083</u>	<u>93,083</u>	<u>93,083</u>
FUND BALANCE - ENDING	<u>\$ 93,083</u>	<u>\$ 93,083</u>	<u>\$ 144,780</u>	<u>\$ 144,780</u>



## TOWNSHIP OF SOMERSET, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - FIRE

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Taxes	\$ 147,707	\$ 147,707	\$ 147,165	\$ (542)
County ambulance		32,822	17,402	(15,420)
Charges for services	5,000	15,000	54,862	39,862
Federal revenue			9,500	9,500
State revenue			2,500	2,500
Donations	1,500	1,500	860	(640)
Interest	1,000	1,000	699	(301)
	<u>155,207</u>	<u>198,029</u>	<u>232,988</u>	<u>34,959</u>
TOTAL REVENUES	\$ 155,207	\$ 198,029	\$ 232,988	\$ 34,959
EXPENDITURES				
Wages and benefits	\$ 104,161	\$ 109,661	\$ 121,645	\$ (11,984)
Supplies	4,250	4,250	3,544	706
Fuel	5,000	5,800	5,375	425
Maintenance	10,500	10,500	16,615	(6,115)
Insurance	13,000	13,000	12,382	618
Utilities	6,800	6,800	5,295	1,505
Telephone	3,000	3,000	1,240	1,760
Equipment	11,000	23,308	25,666	(2,358)
Education and training	5,000	5,000	17,639	(12,639)
Contracted labor	6,900	6,900	3,508	3,392
Miscellaneous	3,400	4,900	11,505	(6,605)
	<u>173,011</u>	<u>193,119</u>	<u>224,414</u>	<u>(31,295)</u>
TOTAL EXPENDITURES	\$ 173,011	\$ 193,119	\$ 224,414	\$ (31,295)
REVENUES OVER (UNDER) EXPENDITURES	\$ (17,804)	\$ 4,910	\$ 8,574	\$ 3,664
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 61,724	\$ 61,724	\$ 71,724	\$ 10,000
Payments on long-term debt	(43,920)	(43,920)	(38,418)	5,502
	<u>17,804</u>	<u>17,804</u>	<u>33,306</u>	<u>15,502</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 17,804	\$ 17,804	\$ 33,306	\$ 15,502
NET CHANGE IN FUND BALANCE	\$	\$ 22,714	\$ 41,880	\$ 19,166
FUND BALANCE - BEGINNING	<u>14,985</u>	<u>14,985</u>	<u>14,985</u>	<u>14,985</u>
FUND BALANCE - ENDING	<u>\$ 14,985</u>	<u>\$ 37,699</u>	<u>\$ 56,865</u>	<u>\$ 34,151</u>

## TOWNSHIP OF SOMERSET, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - PARKS AND RECREATION

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Taxes	\$ 49,235	\$ 49,235	\$ 49,038	\$ (197)
Rental revenue	15,000	15,000	16,206	1,206
Donations	100	100	182	82
Interest	500	500	3,214	2,714
	<u>500</u>	<u>500</u>	<u>3,214</u>	<u>2,714</u>
TOTAL REVENUES	<u>\$ 64,835</u>	<u>\$ 64,835</u>	<u>\$ 68,640</u>	<u>\$ 3,805</u>
EXPENDITURES				
Wages and benefits	\$ 3,080	\$ 3,080	\$ 3,009	\$ 71
Contracted labor	11,000	11,000	10,728	272
Supplies	450	450	17	433
Maintenance	16,979	16,979	2,714	14,265
Fuel	200	200	78	122
Insurance	2,400	2,400	2,775	(375)
Utilities	3,000	3,000	2,660	340
Equipment	1,800	1,800		1,800
Improvements	23,726	23,726	15,446	8,280
Miscellaneous	2,200	2,200	30	2,170
	<u>2,200</u>	<u>2,200</u>	<u>30</u>	<u>2,170</u>
TOTAL EXPENDITURES	<u>\$ 64,835</u>	<u>\$ 64,835</u>	<u>\$ 37,457</u>	<u>\$ 27,378</u>
REVENUES OVER EXPENDITURES	\$	\$	\$ 31,183	\$ 31,183
FUND BALANCE - BEGINNING	<u>67,791</u>	<u>67,791</u>	<u>67,791</u>	<u>67,791</u>
FUND BALANCE - ENDING	<u>\$ 67,791</u>	<u>\$ 67,791</u>	<u>\$ 98,974</u>	<u>\$ 98,974</u>

## TOWNSHIP OF SOMERSET, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - CAPITAL IMPROVEMENTS

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Taxes	\$ 49,235	\$ 49,235	\$ 49,038	\$ (197)
Interest	<u>1,000</u>	<u>1,000</u>	<u>5,354</u>	<u>4,354</u>
TOTAL REVENUES	<u>\$ 50,235</u>	<u>\$ 50,235</u>	<u>\$ 54,392</u>	<u>\$ 4,157</u>
EXPENDITURES				
Equipment	<u>\$ 50,235</u>	<u>\$ 50,235</u>	<u>\$ 22,797</u>	<u>\$ 27,438</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$</u>	<u>\$</u>	<u>\$ 31,595</u>	<u>\$ 31,595</u>
OTHER FINANCING SOURCES (USES)				
Payments on long-term debt	\$	\$	\$ (5,340)	\$ (5,340)
Capital lease financing	<u></u>	<u></u>	<u>17,165</u>	<u>17,165</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$</u>	<u>\$</u>	<u>\$ 11,825</u>	<u>\$ 11,825</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 43,420	\$ 43,420
FUND BALANCE - BEGINNING	<u>78,628</u>	<u>78,628</u>	<u>78,628</u>	<u>78,628</u>
FUND BALANCE - ENDING	<u><u>\$ 78,628</u></u>	<u><u>\$ 78,628</u></u>	<u><u>\$ 122,048</u></u>	<u><u>\$ 122,048</u></u>

## TOWNSHIP OF SOMERSET, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - POLICE

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Taxes	\$ 98,472	\$ 98,472	\$ 98,103	\$ (369)
State revenues	250	250	2,310	2,060
Charges for services			220	220
Fines, fees, and forfeits	4,750	4,750	4,476	(274)
Interest	300	300	1,137	837
Donations	500	500	350	(150)
Other	1,580	1,580	97	(1,483)
	<u>1,580</u>	<u>1,580</u>	<u>97</u>	<u>(1,483)</u>
TOTAL REVENUES	<u>\$ 105,852</u>	<u>\$ 105,852</u>	<u>\$ 106,693</u>	<u>\$ 841</u>
EXPENDITURES				
Wages and benefits	\$ 81,608	\$ 81,608	\$ 93,089	\$ (11,481)
Supplies	1,700	1,700	337	1,363
Maintenance	5,700	5,700	933	4,767
Fuel	6,000	6,000	6,212	(212)
Insurance	12,000	12,000	12,274	(274)
Telephone	2,200	2,200	1,475	725
Equipment	3,800	3,800	1,791	2,009
Education and training	1,250	1,250	1,304	(54)
Miscellaneous	1,375	1,375	695	680
	<u>1,375</u>	<u>1,375</u>	<u>695</u>	<u>680</u>
TOTAL EXPENDITURES	<u>\$ 115,633</u>	<u>\$ 115,633</u>	<u>\$ 118,110</u>	<u>\$ (2,477)</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (9,781)</u>	<u>\$ (9,781)</u>	<u>\$ (11,417)</u>	<u>\$ (1,636)</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>\$ 9,781</u>	<u>\$ 9,781</u>	<u>\$ 19,781</u>	<u>\$ 10,000</u>
NET CHANGE IN FUND BALANCE	\$	\$	\$ 8,364	\$ 8,364
FUND BALANCE - BEGINNING	<u>32,832</u>	<u>32,832</u>	<u>32,832</u>	<u>32,832</u>
FUND BALANCE - ENDING	<u>\$ 32,832</u>	<u>\$ 32,832</u>	<u>\$ 41,196</u>	<u>\$ 41,196</u>

## OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

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## TOWNSHIP OF SOMERSET, MICHIGAN

### GAO GOVERNMENT AUDITING STANDARDS REPORT

#### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Somerset, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Township of Somerset, Michigan's basic financial statements and have issued our report thereon dated September 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Somerset, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Somerset, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Somerset, Michigan's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Somerset, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Somerset, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Township of Somerset, Michigan's

internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Somerset, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, in light of all the significant deficiencies described in the schedule of findings, we consider significant deficiencies 2008.1 through 2008.4 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Somerset, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Township of Somerset, Michigan in a separate letter dated September 15, 2008.

This report is intended for the information of the Township Board, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan  
September 15, 2008

TOWNSHIP OF SOMERSET, MICHIGAN

SCHEDULE OF FINDINGS

JUNE 30, 2008

2008-1. Monthly Bank Reconciliations

*Requirement:* All cash accounts in the general ledger should be reconciled to the bank statements at the end of each month.

*Condition:* The Township performs bank reconciliations of their accounts as of the statement date rather than on the last day of the month; e.g., the third day of the following month.

*Cause:* The Township does not have controls in place to reconcile cash at the end of the month.

*Effect:* Monthly bank reconciliations do not agree with the month-end general ledger. This has the potential of errors occurring in month-end closings of the financial books and not be timely detected.

*View of responsible officials:* The Township will reconcile all general ledger cash accounts with the bank statements as of the last day of each month.

2008-2. Disbursements

*Requirement:* According to Township policy, vendor invoices must be approved by department heads prior to being submitted for payment. Likewise, vendor invoices should not be paid unless approved by department heads. Department head approval is evidenced by their signature on the invoice.

*Condition:* During the year there were expenditures incurred by the Clerk's office that were not approved by the department head prior to payment. Furthermore, payment was made for those unapproved invoices.

*Cause:* The Clerk does not approve invoices, evidenced by signature, prior to being paid, and the Deputy Clerk pays invoices that have not been signed. Furthermore, the Township did not respond to the auditor's prior year recommendations relating to the same.

*Effect:* Invoices are not preapproved according to Township policy.

*View of responsible officials:* The Clerk's office will take steps to ensure that all invoices are preapproved by department heads, as evidenced by signature, prior to any payments being made.



TOWNSHIP OF SOMERSET, MICHIGAN

SCHEDULE OF FINDINGS

JUNE 30, 2008

2008-3. Year-End Closing Procedures

*Requirement:* It is management's responsibility to ensure that the Township's financial books have been properly reconciled and adjusted at the end of the fiscal year.

*Condition:* The Township did not accurately account for year-end accounts payable, receivables, fixed assets and related depreciation, fund equity reserves, government-wide accruals, and proceeds from a capital lease which were material to the Township's financial statement.

*Cause:* The Township has not developed internal controls to capture financial information relevant to these areas to ensure their proper inclusion in the year-end financial books.

*Effect:* The Township is unable to identify and correct material misstatements in their financial books.

*View of responsible officials:* The Township will implement additional review and year-end closing procedures to ensure accurate reporting.

2008-4. Lack of Segregation of Duties Over Payroll Checks

*Requirement:* Management has the responsibility of safeguarding Township assets.

*Condition:* The Deputy Clerk is one of several authorized check signers for all checking accounts. Furthermore, the Deputy Clerk inputs and processes all expenditures including payroll, maintains the general ledger, and is custodian over the check stock.

*Cause:* The Township's internal controls have not been modified to secure the assets of the Township.

*Effect:* The Deputy Clerk has the opportunity and ability to write checks that do not relate to Township business and cover it up without being detected by management in a timely manner.

*View of responsible officials:* The Deputy Clerk will be removed as a signatory on all bank accounts.

TOWNSHIP OF SOMERSET, MICHIGAN

SCHEDULE OF FINDINGS

JUNE 30, 2008

2008-5. Preparation of GAAP Basis Financial Statements

*Requirement:* The Township is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

*Condition:* The Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the Township's internal controls.

*Cause:* This condition is caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of obtaining the necessary training to perform this task.

*Effect:* The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

*View of responsible officials:* The Township will continue to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the Township will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.